

## **CCXAP assigns first time long-term credit rating of BBB<sub>g</sub>- to Linzhou City Investment Holdings Co., Ltd., with stable outlook.**

Hong Kong, 21 November 2023 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) has assigned first-time long-term credit rating of BBB<sub>g</sub>- to Linzhou City Investment Holdings Co., Ltd. (“LZIH” or the “Company”), with stable outlook.

The BBB<sub>g</sub>- long-term credit rating of LZIH reflects Linzhou City Government’s (1) strong capacity to provide support; and (2) very high willingness to provide support based on our assessment of the Company’s characteristics. Our assessment of Linzhou City Government’s capacity to support reflects Linzhou City’s status as the largest county or district by gross regional product (“GRP”) in Anyang City for years, with growing economy, but constrained by moderate fiscal metrics.

The rating also reflects the local government’s willingness to support, which is based on the Company’s (1) dominant role in local shantytown renovation and infrastructure construction; and (2) good track record of receiving government support. However, the rating is constrained by the Company’s (1) medium and increasing exposure to commercial activities; (2) increasing debt burden and moderate asset liquidity; and (3) moderate level of contingent risk.

### **Corporate Profile**

Established in December 2016, LZIH is the most important infrastructure investment and financing company (“LIIFC”) in Linzhou City, responsible for infrastructure construction and water supply in Linzhou City. The Company has also diversified into other commercial business, including property sales, engineering construction, and commodity sales. As of 30 June 2023, the Company has been wholly owned and controlled by the Finance Bureau of Linzhou City.

### **Rating Rationale**

#### **Credit Strengths**

**Dominant role in local shantytown renovation and infrastructure construction.** As the largest LIIFC in Linzhou City in terms of total assets, LZIH is the most important LIIFC in Linzhou City with dominant role in local shantytown renovation and infrastructure construction. It also carries out essential public services in Linzhou City, such as water supply and provision of public transportation.

**Good track record of receiving government support.** LZIH has a good track record of receiving support from the local government in the form of project payments, asset injections, and operating subsidies to support its investments and the operation of its businesses. Considering its strategic role in social and economic development of Linzhou City, we expect the local government will continuous to provide support to the Company.

## Credit Challenges

**Medium and increasing exposure to commercial activities.** LZIH participates in different commercial activities such as property sales, commodity sales and engineering construction. The Company's commercial activities accounted for 15% to 20% of its total assets and the business risks are considered medium. However, with the ongoing investment in property sales, we expect its exposure to commercial activities would increase especially during the downturn of the real estate market.

**Increasing debt burden and moderate asset liquidity.** Due to the continuous investment in infrastructure construction projects, LZIH's total debt has been growing over the past three years. As of 30 June 2023, LZIH's total debt increased to RMB11.9 billion from RMB8.5 billion as of end-2020. LZIH's asset liquidity was moderate. As of 30 June 2023, the Company had pledged some assets for loans, including cash, inventories, and investment properties, with a total restricted amount of RMB4.9 billion, accounting for 32.5% of net assets.

**Moderate level of contingent risk.** The credit profile of LZIH is constrained by its large number of external guarantees, which could potentially increase its repayment obligations. As of 30 June 2023, the Company's external guarantees amounted to RMB4.1 billion, accounting for 27.7% of its net assets, most of which were provided to local SOEs. Apart from that, some SOEs were listed as judgement debtors, which may expose the Company to higher contingent risks. The SOEs listed as judgement debtors are under negotiation to resolve relevant disputes.

## Rating Outlook

The stable outlook on LZIH's rating reflects our expectation that the Linzhou City Government's capacity to provide support will be stable, and the Company's characteristics such as its importance in social and economic development of Linzhou City will remain unchanged over the next 12 to 18 months.

### What could upgrade the rating?

The rating could be upgraded if (1) Linzhou City Government's capacity to support strengthens; and (2) the Company's characteristics change in a way that strengthens the local government's willingness to support such as improved debt management.

### What could downgrade the rating?

The rating could be downgraded if (1) Linzhou City Government's capacity to support weakens; or (2) the Company's characteristics change in a way that weakens the local government's willingness to provide support, such as reduced regional significance or materially increased exposure to risky commercial activities.

## Rating Methodology

The methodology used in this rating is the Rating Methodology for [China's Local Infrastructure Investment and Financing Companies \(July 2022\)](#).



## Regulatory Disclosures

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